

**CDS Clearing and Depository Services Inc. (CDS®)**

**Increase to the daily subscription fee for the Entitlements Messaging - MT564 service**

**REQUEST FOR COMMENTS**

**A. DESCRIPTION OF THE PROPOSED CDS AMENDMENT**

**Background**

CDS offers its clients an entitlements messaging service in an ISO15022-compliant format to compliment other data and report delivery avenues. The message set includes an MT564-Corporate Actions Notification message, an MT568-Corporate Action Narrative message, and an MT566-Corporate Action Confirmation message. The messages are delivered over the SWIFT network or over CDS's MQ Series network.

The Canadian National Market Practice Group (NMPG) requested that CDS make four changes to the content delivered in the MT564 message to further align this content with global market standards and practices. Existing subscribers to the service will benefit from more precise and complete entitlements and corporate action details, and the increased precision will reduce processing interruptions on the Participant side, and increase straight through processing (STP) capacity.

**B. NATURE AND PURPOSE OF THE PROPOSED CDS AMENDMENT**

CDS is seeking approval for an increase to the Entitlements Messaging – MT564 service from \$13.25 per CUID per day to \$20.00 per CUID per day - an increase of \$6.75 per CUID per day. This fee will defray a portion of the cost associated with CDS's internal development effort. The technological changes are intended to align CDS's reporting protocol more closely with the existing ISO 15022 standard.

CDS proposes to implement this fee increase in parallel with the implementation of the technology changes, subject to regulatory approval, on or after December 13, 2014.

CDS is requesting approval to implement the proposed fee pursuant to Article 26.6 of *the* Autorité des marchés financiers Recognition Decision 2012-PDG-0142, as amended, Section 7.6 of Schedule B of the OSC Recognition Order, as amended, and Section 9 of the BCSC Recognition Order, as amended.

**C. IMPACT OF THE PROPOSED CDS AMENDMENT**

The proposed fee increase will impact only CDS Participants who subscribe to the Entitlements Messaging – MT564 service. There will be no changes to any other entitlements or corporate actions reporting services (e.g., RMS reports, outbound files).

**C.1 Competition**

The proposed fee increase is limited to this specific subscriber service, and is intended to improve STP capacity for those Participants who are currently subscribed to the MT564 service. The data reported via this service is available in other formats and the subscription service is not a critical or essential part of CDS's clearing, settlement, and depository service offerings.

**C.2 Risks and Compliance Costs**

The proposed fee increase for this messaging service does not result in material limitations or costs to participation in CDSX. Subscribers may be required to modify how their systems interpret the data

provided in the MT564 message to accommodate the changes. There are no procedure changes associated with this modification.

Service subscribers are invoiced monthly (code 4006), and there will be no change to the invoicing method.

### **C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty**

The modification to the MT564 message fall under Principle 22: Communication procedures and standards, of the Principles for Financial Market Infrastructures (PFMI). These principles are jointly authored by the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions (collectively known as CPSS/IOSCO).

*Principle 22: Communication procedures and standards*

*“An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards”.*

...

**3.22.3. “An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards, such as standardized messaging formats and reference data standards...”** *The use of internationally accepted standards for message formats and data representation will generally improve the quality and efficiency of the clearing and settlement of financial transactions...”*

## **D. DESCRIPTION OF THE FEE SETTING PROCESS**

The process for implementing or amending fees for certain services complies with CDS’s regulatory oversight requirements in respect of fair and appropriate fees, pricing model transparency, and ensures that stakeholders have an opportunity to provide meaningful feedback to CDS.

### **D.1 Development Context**

The NMPG requested that CDS make changes to the existing MT564 message to more closely align the content of these messages with ISO15022 standards.

### **D.2 Fee Setting Process**

Development costs and the proposed fee were reviewed with the NMPG, which agreed that the fee increase was justified in light of the expected internal operational benefits. The proposed fee was subsequently presented to CDS’s Strategic Development Review Committee (SDRC) Entitlements and Corporate Actions subcommittee, to the SDRC itself, and to the CDS Fee Committee for their respective review and comments. The proposed fee was presented to the SDRC on June 26, 2014 and the Fee Committee on August 12, 2014. All three committees supported the development effort and the proposed fee increase.

The fee increase was presented to CDS’s Risk Management Audit Committee (RMAC) on September 24, 2014, for their review and comment prior to submission for regulatory review. Upon review, RMAC agreed to proceed.

### **D.3 Issues Considered**

The most critical issue considered in determining whether to proceed with the modifications to the MT564 message was the timing of this development effort. CDS is in the process of determining the feasibility of upgrades to CDS's existing entitlements and corporate actions systems, a process which will impact the delivery of data via this, and other, services. Stakeholders and CDS agreed, however, that the message modifications provided tangible benefit to Participants and that these benefits justified proceeding with the enhancement and the consequential fee increase immediately.

### **D.4 Consultation**

The membership of the NMPG includes all current subscribers to the Entitlements Messaging – MT564 service, and the change request originated with the NMPG. In addition, the SDRC and its subcommittees are kept abreast of all on-going development activities.

### **D.5 Alternatives Considered**

CDS considered several fee thresholds, including a threshold which would cover all development costs. The proposed \$6.75 per CUID per day fee increase covers a portion of the development cost over CDS's expected payback period (3 years), and CDS is of the view that this division of costs is justified in light of the fact that, in addition to the benefits accruing to Participant subscribers, the modification results in CDS being more aligned with global market practice.

### **D.6 Implementation Plan**

CDS proposes to implement the technology modifications, and the consequential fee increase on or after December 13, 2014, subject to regulatory approval.

The implementation schedule is communicated to impacted stakeholders through the SDRC and its subcommittees as well as through the CDS Customer Relationship Management team. Subscribers are provided with a detailed description of the changes and are provided with an opportunity to receive impacted messages in a test environment. There are no procedure changes associated with this technology modification.

Two weeks prior to the implementation of the technology and fee change, CDS will issue a bulletin confirming the implementation date. Clients need not take any action, though they have the right and opportunity to unsubscribe from the service at any time.

The fee increase will be applied to service code 4007; this code appears in the Information and Support section of the CDS 2014 Price Schedule, and is listed as Entitlements Messaging – MT564.

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*, and by the British Columbia Securities Commission pursuant to section 24(d) of the British Columbia *Securities Act*, and as a clearing house by the Autorité des marchés financiers pursuant to Section 169 of the Quebec *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX<sup>®</sup>, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*.

## **E. TECHNOLOGICAL SYSTEM CHANGES**

### **E.1 CDS**

- a) Corporate events that are subject to a plan of arrangement will be flagged as such by CDS when setting up the event. This will cause the MT564 message to carry (in sequence D) an additional business process indicator identifying the event as being a component event of a plan of arrangement (:22F::ADDB//SCHM).
- b) The code “UKWN” will be reported, instead of the numeric 0, when a date, rate or price is not known.
- c) Currently, all dividend events having an optional choice are reported as DVOP (dividend option). Systems changes will allow for more specificity and alignment to available corporate action event indicator codes.
  - i. DVCA will be used for all cash dividends including those with an optional currency.
  - ii. DVOP will apply where the shareholder has the option to receive shares in lieu of cash and the company creates new share capital in exchange for the dividend.
  - iii. DRIP will apply where the shareholder has the option to receive shares in lieu of cash and the company invests the dividend in the market

For those events having at least one share option, CDS will report the event as DRIP unless advised otherwise by the issuer (or its agent).

## **E.2 CDS Participants**

- Minor systems changes may be required by subscribers to the service.
- Current invoicing protocols will continue to apply.

## **E.3 Other Market Participants**

- Minor systems changes may be required by Service Bureaus acting on behalf of subscribing Participants.

## **F. COMPARISON TO OTHER CLEARING AGENCIES**

Entitlements reporting is standard practice amongst organizations providing entitlement services to their clients. Such reporting is provided either in a proprietary format, ISO 15022 format, or ISO 20022 format. Pricing models for such reporting vary by entity and jurisdiction. In CDS's case, ISO15022 standard reporting is considered a premium service over CDS's proprietary reporting formats and, therefore, attracts a different fee.

## **G. PUBLIC INTEREST ASSESSMENT**

CDS has determined that the proposed fee is not contrary to the public interest.

## **H. COMMENTS**

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin, the British Columbia Securities Commission Bulletin or the Autorité des marchés financiers Bulletin to:

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Copies should also be provided to the Autorité des marchés financiers, the British Columbia Securities Commission and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

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CDS will make available to the public, upon request, all comments received during the comment period.